



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2011 Biennium

<b>Bill #</b>	HB0575	<b>Title:</b>	Revise water laws relating to coal bed methane
<b>Primary Sponsor:</b>	McChesney, Bill	<b>Status:</b>	As Amended in House Committee

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns              |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts           | <input type="checkbox"/> Dedicated Revenue Form Attached |

### **FISCAL SUMMARY**

	<b><u>FY 2010</u></b> <b><u>Difference</u></b>	<b><u>FY 2011</u></b> <b><u>Difference</u></b>	<b><u>FY 2012</u></b> <b><u>Difference</u></b>	<b><u>FY 2013</u></b> <b><u>Difference</u></b>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$50,000	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	\$0	\$0	(\$1,279,000)	(\$1,466,000)
State Special Revenue	\$0	\$0	\$1,279,000	\$1,466,000
<b>Net Impact-General Fund Balance:</b>	<u>\$0</u>	<u>\$0</u>	<u>(\$1,279,000)</u>	<u>(\$1,466,000)</u>

### **Description of fiscal impact:**

The Department of Natural Resources and Conservation (DNRC) and the Board of Oil and Gas Conservation (BOGC) are required by the amended version of this bill to conduct a study on the effect of oil and gas produced water on groundwater and the appropriate uses of water produced from oil and gas operations. The bill further requires the findings of this study and recommendations for legislation be reported to an interim committee. It will be necessary to hire contracted services to perform these duties. HB 575 also allocates an additional 1.23% of the state share of oil and gas revenue to the coal bed methane protection account beginning in FY 2012.

### **FISCAL ANALYSIS**

#### **Assumptions:**

- Under current law, the coal bed methane protection account receives 1.23% of the state share of oil and natural gas through FY 2011. After FY 2011, revenue from the oil and natural gas severance tax will no longer be distributed to the coal bed methane protection account. HB 575 extends the distribution of 1.23% of the state share of oil and gas revenue to the coal bed methane protection account after FY 2011.
- Under current law the general fund will receive 90.23% of the state share of oil and natural gas revenue through FY 2011 and 90.22% after FY 2012. The official HJR2 revenue estimates for the general fund share of oil and natural gas revenue are \$82.423 million in FY 2011. The Office of Budget and Program

Planning estimates a growth rate of 13.79% in FY 2012 and 14.64% in FY 2013 for general fund oil and gas revenue. Given these estimates of general fund revenue, it is possible to calculate the total state share of oil and gas revenue by dividing the estimated revenue by the current law percentages for each fiscal year.

3. HB 575 distributes 1.23% of the state share of oil and gas revenue to the coal bed methane protection account after FY 2011. The general fund will be reduced by a like amount. The following table shows the calculation for additional revenue to the coal bed methane protection account in FY 2012 and FY 2013.

<b>Additional Coal Bed Methane Protection Account Revenue</b>		
<b>FY 2012 Through FY 2013</b>		
<b>(\$ millions)</b>		
	<b>FY 2012</b>	<b>FY 2013</b>
Estimated General Fund Oil and Gas Revenue	\$93.789	\$107.515
General Fund Percentage of State Revenue	90.22%	90.22%
Total State Share	\$103.955	\$119.169
HB 575 Distribution to Coal Bed Methane Protection Account	1.23%	1.23%
<b>HB 575 Revenue</b>	<b>\$1.279</b>	<b>\$1.466</b>

4. DNRC and the BOGC will work together in determining study parameters, procedures, and in selecting a contractor.
5. Funds to support the study will come from the coal bed protection account (fund 02694) which is established in Section 76-15-904, MCA.
6. HB 575 provides a mechanism for permitting the use of water produced in association with coal bed methane (CBM) production on a temporary basis and sets a filing fee at \$800 per application. Current fees set out in ARM 36.12.103(a) are \$800 for surface water permit applications. This bill is therefore revenue neutral in regards to permit application fees.
7. It is estimated that the contract services will cost an additional \$50,000 in FY 2010.

	<b><u>FY 2010</u></b> <b><u>Difference</u></b>	<b><u>FY 2011</u></b> <b><u>Difference</u></b>	<b><u>FY 2012</u></b> <b><u>Difference</u></b>	<b><u>FY 2013</u></b> <b><u>Difference</u></b>
<b><u>Fiscal Impact:</u></b>				
<b><u>Expenditures:</u></b>				
Operating Expenses	\$50,000	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<b>\$50,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$50,000	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<b>\$50,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b><u>Revenues:</u></b>				
General Fund (01)	\$0	\$0	(\$1,279,000)	(\$1,466,000)
State Special Revenue (02)	\$0	\$0	\$1,279,000	\$1,466,000
<b>TOTAL Revenues</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	\$0	\$0	(\$1,279,000)	(\$1,466,000)
State Special Revenue (02)	(\$50,000)	\$0	\$1,279,000	\$1,466,000

**Technical Notes:**

1. Statute will need revision to allow this expenditure from the coal bed methane protection account. Currently the account is earmarked to compensate landowners and water right holders for damages attributable to coal bed methane development, and money in the account must be appropriated by the DNRC for use by conservation districts that have private landowners or water right holders who qualify for compensation.

---

*Sponsor's Initials*

---

*Date*

---

*Budget Director's Initials*

---

*Date*